

# Irish Life MAPS

PLUS 2015 ANNUAL REVIEW

QUARTER 4 (Q4) 2015: OCTOBER TO DECEMBER

## IRISH LIFE MAPS FUND PERFORMANCE

The table below shows the returns over the last 12 and 24 months on each of the 5 Irish Life MAPS funds. While we would always urge caution when looking at fund performance over time periods shorter than 5 or more years, these numbers are still indicative of why Irish Life MAPS works and how it can benefit clients.

| FUND      | MAP2  | MAP3   | MAP4   | MAP5   | MAP6   |
|-----------|-------|--------|--------|--------|--------|
| 12 MONTHS | 2.88% | 5%     | 7.62%  | 9%     | 6.35%  |
| 24 MONTHS | 8.51% | 13.56% | 21.62% | 25.48% | 22.85% |

Source: Irish Life Investment Managers (ILIM). Returns shown to 31 December 2015, before any fund management charge.

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## IRISH LIFE MAPS ANNUAL REVIEW

As part of ILIM's ongoing risk management of the Irish Life MAPS funds, they undertake a yearly strategic review of the funds to ensure they continue to represent the best of ILIM's thinking and capabilities. The main outcomes of the most recent review, completed during Q4 2015, are outlined below.

### 1 Asset allocation

ILIM have reduced exposure to low returning assets like cash/bonds in favour of high conviction, high returning assets. The aim is to improve returns while still managing each MAPS fund to its original risk rating.

### 2 Risk management

Previously the DSC only applied to Developed Market Shares. Since the review, DSC will be applied to a broader global equity index called MSCI ACWI (All Country World Index) which includes about 10% in Emerging Market shares. To further enhance the overall risk management, ILIM are also implementing a partial currency hedging policy across all Irish Life MAPS funds. The aim of this is to reduce potential foreign currency risk going forward.

These changes have now been implemented. ILIM continue to monitor and review the asset allocation and splits within Irish Life MAPS on a regular basis to ensure that, in conjunction with quarterly rebalancing, each Irish Life MAPS fund is managed to its original risk rating.

# ECONOMIC LOOK-BACK Q4 2015

## SUMMER STORMS...

After a summer of discontent for investors and markets alike, there was a welcome rebound into the year end as concerns on the outlook for China temporarily abated. The global recovery in markets was further supported by additional monetary stimulus from central banks and greater expressions of confidence by the US Federal Reserve on their economy, ultimately leading to the first interest rate rise seen in 9 years. However, the significant pick-up in market volatility globally evident in the second half of 2015 looks set to be a feature of markets again in 2016.



## BROKEN CHINA...

China was a big talking point for many investors. Through the fourth quarter, Chinese economic data stabilised, easing fears of a possible hard landing as reliable indicators suggested growth levels running around 5/6%. If sustained, they would be sufficient to prevent a negative impact on the broader global economy. It is a storyline that will dominate 2016 and given the history of market interventions by the Chinese authorities (some more successful than others), it is likely to be a bumpy journey and one we are monitoring very closely. For now, we think the authorities have the situation in hand but we would have to review that position should the data deteriorate significantly.

## GLOBAL ROUND-UP...

In Europe, expectations grew for additional monetary stimulus from the European Central Bank (ECB) to offset the perceived risk of lower growth and inflation. Ultimately, in their December meeting the ECB disappointed relative to these expectations which contributed to some weakness in equity and bond markets as the year came to a close.

Meanwhile the US Federal Reserve was much more confident regarding the economic outlook, dropping previous references to concerns of slowing growth in emerging markets on the US economy. Indeed, as a vote of confidence in the recovery, they raised interest rates, which was well received by investors and contributed to gains in equity markets.

Global economic data was somewhat mixed during the quarter but generally improved, particularly from November onwards. Most notable in this regard was the strength in the US labour market and continued recovery in sentiment surveys in Europe.

## BONDS & EQUITIES...

Over the quarter, the FTSE All World equity index rose +5.9% (8.1% in €) as Japan gained +9.9% (12.5% in €) and the US rose +6.7% (9.6% in €) as economic data recovered. European equities rose 5.8% (6.1% in €) despite falling in December following the ECB policy disappointment. The UK rose 3.7% (3.7% in €), impacted by its relatively high weight to an energy and commodity sectors under pressure. Emerging markets rose 1.6% (3.5% in €). Bonds generated more modest gains (having already made positive returns during the third quarter) and were supported by ECB bond purchases. The benchmark German 10 year yields rose slightly to 0.63%.

## CURRENCIES AND COMMODITIES...

The Euro fell against the US dollar over the quarter to 1.086 as expectations grew regarding additional ECB policy stimulus and increasing expectations of an interest rate rise in the US which finally occurred in December. Commodities fell -16.6% (-14.3% in €) as Brent oil fell -22.9% with supplies and inventories continuing to build and The Organization of the European Exporting Countries (OPEC) failing to agree production cuts.

**Source:** David Haslam, Head of Retail, Irish Life Investment Managers (ILIM), January 2016.

## IRISH LIFE MAPS ASSET SPLIT (AFTER THE ANNUAL REVIEW)

There are five Irish Life MAPS funds to suit different attitudes to risk. The table below shows the strategic asset mix for each of the funds. As you can see the lower risk fund Multi Asset Portfolio 2 (MAP2) has a very high percentage in bonds and cash, which are traditionally less volatile assets. The higher risk fund MAP6 is predominantly invested in shares, which are traditionally more volatile than bonds or cash but have, in the past, given better long-term returns.

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| FUND NAME                      | MAP2 | MAP3   | MAP4   | MAP5   | MAP6 |
|--------------------------------|------|--------|--------|--------|------|
| Bonds                          | 42%  | 25.50% | 10.50% | 0%     | 0%   |
| External Managers/Alternatives | 22%  | 22%    | 22%    | 15%    | 5%   |
| Property                       | 6%   | 7.50%  | 7.50%  | 7.50%  | 5%   |
| Emerging Market Shares         | 0%   | 0%     | 0%     | 10%    | 32%  |
| Low Volatility Shares          | 7%   | 14%    | 20%    | 17.50% | 8%   |
| Global Shares*                 | 13%  | 26%    | 40%    | 50%    | 50%  |
| Cash                           | 10%  | 5%     | 0%     | 0%     | 0%   |

\* See page 5 for more details.

The table shows the strategic asset mix and ILIM rebalance back to this mix on a quarterly basis. For the latest Irish Life MAPS fund mixes, see the factsheet at [www.irishlife.ie](http://www.irishlife.ie).

ILIM will continue to monitor and review these assets and may change them over time.

## DYNAMIC SHARE TO CASH MODEL



Each Irish Life MAPS fund uses the innovative Dynamic Share to Cash (DSC) model. The DSC is a quantitative model that has been developed by ILIM and it uses a number of factors across three broad categories.

The DSC aims to reduce the amount invested in shares and increase the amount in cash when it identifies greater potential for stock market falls.

The factors include:

| FACTOR CATEGORY         | OBJECTIVE   | INDIVIDUAL FACTORS   |
|-------------------------|---|--|
| 1 MARKET MOMENTUM       | Take account of trends in shares                            | <ul style="list-style-type: none"> <li>12 month share market momentum</li> <li>200 day moving average</li> </ul>                                       |
| 2 VALUATIONS            | Take account of the long-term valuation of shares           | <ul style="list-style-type: none"> <li>Long-term share values</li> <li>Earnings quality</li> <li>Earnings yield</li> <li>Earnings Revisions</li> </ul> |
| 3 GLOBAL MACROECONOMICS | Take account of the influence of global economics on shares | <ul style="list-style-type: none"> <li>Real GDP growth rate</li> <li>Bond yield curve slope</li> <li>Energy price levels</li> </ul>                    |

Based on how these factors move over time, the DSC will decide how much of each Irish Life MAPS fund to invest in Global Shares and how much to invest in cash. ILIM will regularly monitor and review these factors.

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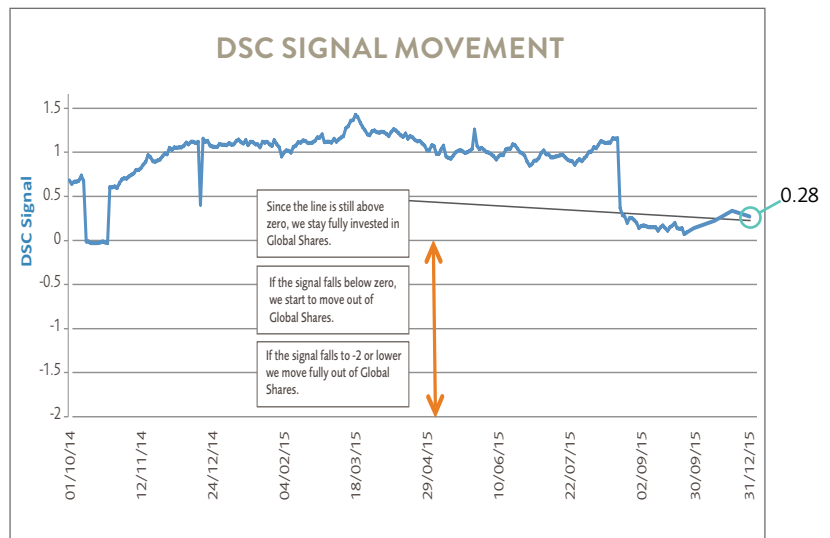
## DSC SIGNAL EXPLAINED

As mentioned we monitor 3 broad categories of market indicators (Momentum in markets, Valuations and Global Macroeconomics) which have 9 underlying inputs that generate a 'signal'. These signals are represented by a number in the graph.

When the signal number is above zero Irish Life MAPS funds are fully invested in Global Shares but in stressed markets that can reduce.

In stressed markets, if the signal number falls below zero this triggers a switch from Global Shares to Cash in the Irish Life MAPS funds. The more negative the signal number becomes and the more we move out of Global Shares.

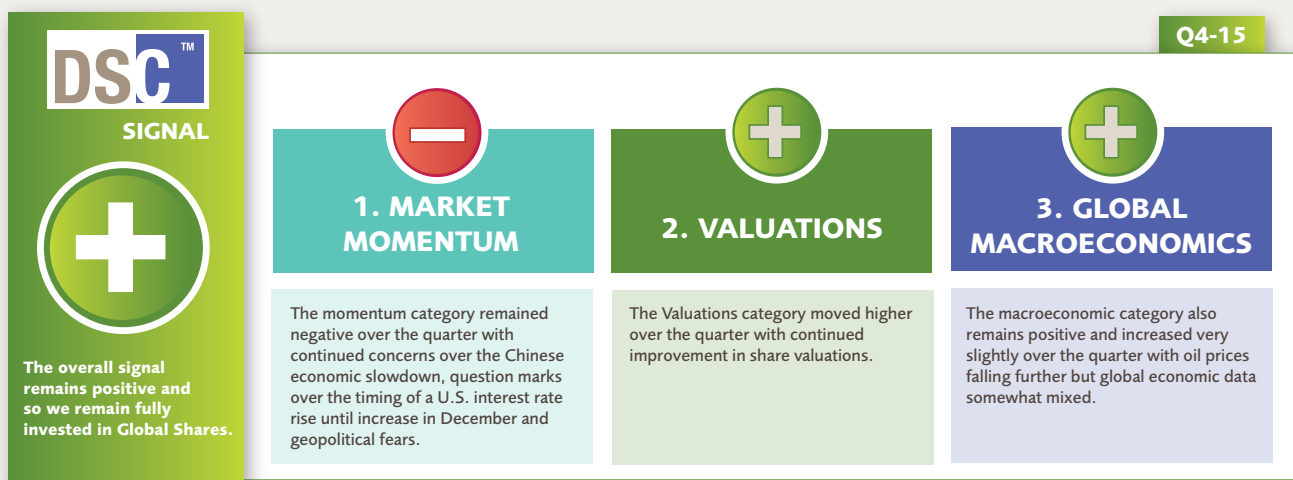
If the signal number reaches -2, the allocation to Global Shares is zero.



The graph shows how the DSC Signal has moved since January 2014 until the end of quarter 4, 2015. The signal value increased slightly from 0.14 at the end of September to 0.28 at the end of December, so still remains above 0. This means that each of the Irish Life MAPS funds continues to hold their maximum allocation in Global Shares. To see this allocation, see the latest fund factsheets on [www.irishlife.ie](http://www.irishlife.ie).

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## UPDATE FOR QUARTER 4 2015



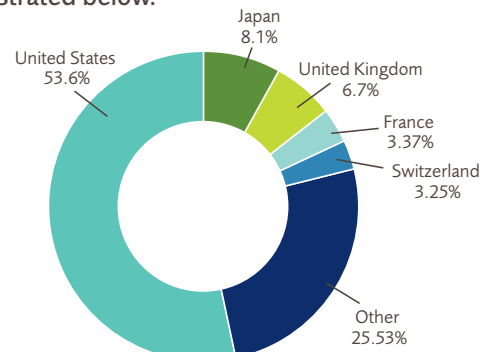
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## 1 Shares

### GLOBAL SHARES

- ILIM track the performance of the MSCI All Country World Index (ACWI) created by Morgan Stanley Capital International to provide exposure to Global Shares.
- The index consists of over 2,400 individual companies which operate in 10 different sectors.
- We use the DSC model (explained on page 3) on Global Shares.
- Global Shares includes about 10% in Emerging Market Shares.
- For the percentage of Global Shares in each Irish Life MAPS fund, see the latest factsheet on [www.irishlife.ie](http://www.irishlife.ie).

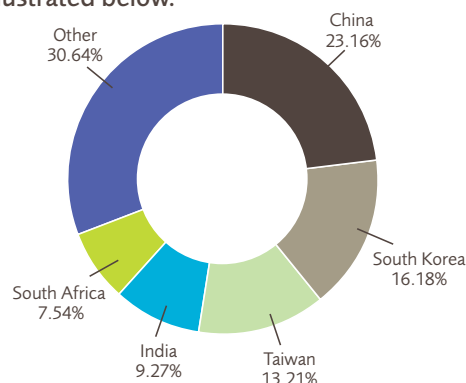
The geographic split of the index is illustrated below.



### EMERGING MARKET SHARES

- ILIM track the performance of the MSCI Emerging Markets Index created by Morgan Stanley Capital International to provide exposure to Emerging Market Shares.
- The index consists of 2,705 individual companies which operate in 21 different markets.
- For the percentage of Emerging Market Shares in each Irish Life MAPS fund, see the latest factsheet on [www.irishlife.ie](http://www.irishlife.ie).

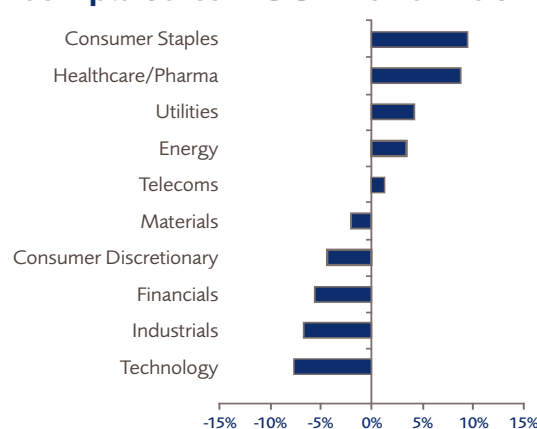
The geographic split of the index is illustrated below.



### LOW VOLATILITY SHARES

- Using a detailed, quantitative strategy, ILIM choose stocks from the MSCI World Index which not only have shown lower volatility in the past but which are also screened for other indicators such as value, for example.
- ILIM choose around 150 stocks to make up their Low Volatility Shares fund.
- For the percentage of Low Volatility Shares in each Irish Life MAPS fund, see the latest factsheet on [www.irishlife.ie](http://www.irishlife.ie).

#### Low Volatility Shares weight compared to MSCI World Index



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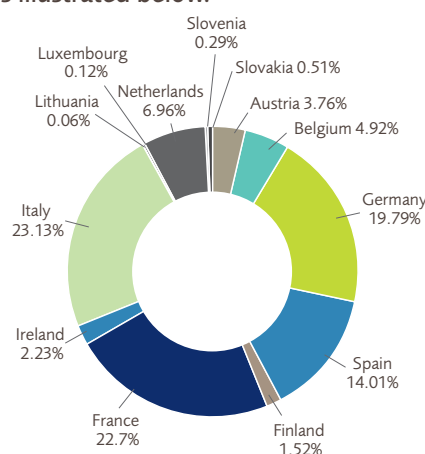
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## 2 Bonds

### GOVERNMENT BONDS

- ILIM currently track the performance of the Merrill Lynch 1-5yr Eurozone Index to provide exposure to government bonds.
- Within the bond allocation, ILIM choose the proportion to invest in government bonds and have discretion in relation to the index which is tracked.

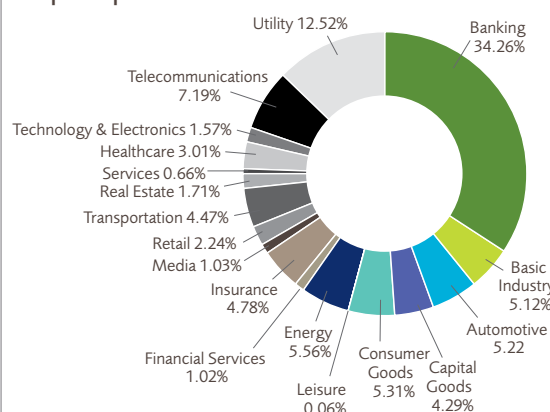
The geographic split of the Merrill Lynch 1-5yr Index is illustrated below.



### CORPORATE BONDS

- ILIM currently track the performance of the Merrill Lynch EMU Large Cap Corporate Index to provide exposure to corporate bonds.
- Within the bond allocation, ILIM choose the proportion to invest in corporate bonds and have discretion in relation to the index which is tracked.

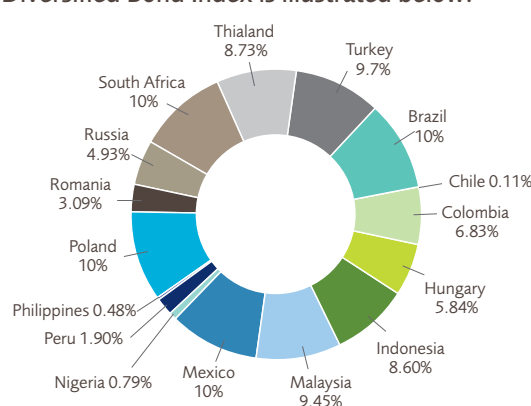
The sector split of the Merrill Lynch EMU Large Cap Corporate Index is illustrated below.



### EMERGING MARKET DEBT

- ILIM currently track the performance of the JP Morgan Government Bond Index Emerging Markets (JP Morgan GBI EM) Global Diversified Bond Index to provide exposure to emerging market bonds.
- Within the bond allocation, ILIM choose the proportion to invest in emerging market bonds and have discretion in relation to the index which is tracked.

The geographic split of the JPM EM Global Diversified Bond Index is illustrated below.



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### 3 External Managers/Alternatives

ILIM recognise the need to incorporate alternative strategies within the Irish Life MAPS funds and have an active pipeline of external managers they monitor on an on-going basis. ILIM currently give access to eight leading global real and absolute return managers making up each Irish Life MAPS fund's External Managers / Alternatives portion. The percentage allocated to External Managers / Alternatives varies for each Irish Life MAPS fund and the latest factsheet on [www.irishlife.ie](http://www.irishlife.ie) will show this percentage.

Within this percentage, the target split across the eight managers is shown below as well as details of the managers themselves and the fund we invest in.

ILIM actively look for managers that can bring diverse performance at the right price. They monitor this performance on an ongoing basis and may choose to change the allocation to external managers or the target allocation within the External Manager allocation. They may also choose to replace, add or remove External Managers as opportunities arise and market conditions change.

| Manager  | Assets Managed   | Fund Name (and type)              | Target Split |
|--|--|-----------------------------------|--------------|
| <b>GMO</b><br>Source <a href="http://www.gmo.com">www.gmo.com</a>  | <b>\$104 billion</b><br>Morningstar award winning equity team                      | <b>GMO Real Return Fund</b>       | <b>11%</b>   |
| <b>Putnam</b><br>Source <a href="http://www.putnam.com">www.putnam.com</a>   | <b>\$148 billion</b><br>75 years of investment experience                          | <b>Putnam Total Return Fund</b>   | <b>8%</b>    |
| <b>AQR</b><br>Source <a href="http://www.aqr.com">www.aqr.com</a>  | <b>\$141.4 billion</b><br>Leading alternative strategy investors since 1998        | <b>AQR Global Risk Parity</b>     | <b>11%</b>   |
|  |  | <b>AQR Style Premia</b>           | <b>18%</b>   |
| <b>Blackrock</b><br>Source <a href="http://www.blackrock.com">www.blackrock.com</a>                                    | <b>\$4.5 trillion *</b><br>World's largest asset manager                           | <b>Blackrock FIGO Fund</b>        | <b>7%</b>    |
| <b>PIMCO</b><br>Source <a href="http://www.pimco.com">www.pimco.com</a>  | <b>\$1.47 trillion *</b><br>One of the world's largest bond funds                  | <b>PIMCO Income Fund</b>          | <b>7%</b>    |
| <b>JP Morgan Asset Management</b><br>Source <a href="http://www.jpmorgan.com">www.jpmorgan.com</a>                     | <b>€2.4 trillion *</b><br>Over 200 years' experience in advising clients           | <b>JP Morgan Systematic Alpha</b> | <b>10%</b>   |
| <b>Dunn Capital Management</b><br>Source <a href="http://www.montlakeucits.com">www.montlakeucits.com</a>              | <b>\$1.1 billion *</b><br>Leading Managed Futures Fund manager for nearly 40 years | <b>Montlake Dunn WMA</b>          | <b>11%</b>   |
| <b>Morgan Stanley Investment Management</b><br>Source <a href="http://www.morganstanley.com">www.morganstanley.com</a> | <b>\$404 billion *</b>   | <b>MS Diversified Alpha Plus</b>  | <b>17%</b>   |

\* September 2015; All other data December 2015.

### 4 Property

Each Irish Life MAPS fund now has an allocation to property. Currently this allocation consists of a mix of commercial, retail and industrial property in Ireland. For the percentage of each fund invested in property see the factsheet on [www.irishlife.ie](http://www.irishlife.ie).

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## ILIM'S CREDENTIALS

ILIM have designed the Irish Life MAPS funds. They have also developed and tested the DSC model and will expertly manage it over time.

ILIM currently take care of over €50 billion of assets for thousands of people across Ireland, including private investors and leading Irish and international companies. By investing in one of these funds through an Irish Life pension, savings or investment plan you will benefit from their experience and expertise.

### IRISH LIFE MAPS:

- > Choice through a range of funds
- > Generating smoother, long-term returns
- > Managing risk to stay on track
- > Delivering peace of mind
- > Available across our pension, investment and savings plans.

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**For more details please see [www.irishlife.ie/investments](http://www.irishlife.ie/investments)  
or contact your financial broker or financial adviser.**

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